quarterly highlights

Unaudited Quarterly Financial Highlights (in millions of U.S. dollars, except per share amounts)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenue	$ 2,692.6	$ 2,660.7	$ 2,203.0	$ 2,448.2	$ 10,004.4
EBIAT (1)	$ 104.3	$ 105.8	$ 70.1	$ 90.9	$ 371.1
% (1)	3.9%	4.0%	3.2%	3.7%	3.7%
Net earnings (loss)	$ 54.8	$ 15.8	$ (38.7)	$ (71.8)	$ (39.8)
Adjusted net earnings (2)	$ 87.3	$ 93.1	$ 64.7	$ 75.5	$ 320.6
%	3.2%	3.5%	2.9%	3.1%	3.2%
Average net invested capital (5)	$ 2,471.3	$ 2,674.8	$ 2,740.1	$ 2,479.1	$ 2,506.3
Weighted average # of shares outstanding (in millions)					
– basic	203.6	207.0	218.1	227.1	213.9
– diluted (3)	223.1	225.5	218.1	227.1	213.9
Basic earnings (loss) per share	$ 0.25	$ 0.06	$ (0.20)	$ (0.33)	$ (0.26)
Diluted earnings (loss) per share (3)	$ 0.25	$ 0.06	$ (0.20)	$ (0.33)	$ (0.26)
Diluted adjusted earnings per share (4)	$ 0.39	$ 0.41	$ 0.27	$ 0.31	$ 1.38
ROIC (5)	16.9%	15.8%	10.2%	14.7%	14.8%

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenue	$ 1,612.3	$ 2,091.9	$ 2,600.1	$ 3,447.8	$ 9,752.1
EBIAT (1)	$ 52.6	$ 72.3	$ 98.4	$ 138.6	$ 361.9
% (1)	3.3%	3.5%	3.8%	4.0%	3.7%
Net earnings	$ 26.1	$ 41.4	$ 55.7	$ 83.5	$ 206.7
Adjusted net earnings (2)	$ 39.5	$ 63.7	$ 83.9	$ 117.0	$ 304.1
%	2.4%	3.0%	3.2%	3.4%	3.1%
Average net invested capital (5)	$ 1,160.6	$ 1,518.2	$ 1,912.9	$ 2,131.3	$ 1,674.7
Weighted average # of shares outstanding (in millions)					
– basic	190.1	202.7	203.0	203.2	199.8
– diluted (6)	199.5	211.9	220.0	222.6	211.8
Basic earnings per share	$ 0.14	$ 0.20	$ 0.26	$ 0.39	$ 1.01
Diluted earnings per share (6)	$ 0.13	$ 0.20	$ 0.25	$ 0.38	$ 0.98
Diluted adjusted earnings per share (6)	$ 0.20	$ 0.30	$ 0.38	$ 0.53	$ 1.44
ROIC (5)	18.1%	19.1%	20.6%	26.0%	21.6%

(1) Earnings before interest, amortization of intangible assets, income taxes, integration costs related to acquisitions and other charges (also referred to as operating margin).

(2) Net earnings (loss) adjusted for amortization of intangible assets, integration costs related to acquisitions and other charges, net of related income taxes. Adjusted net earnings is not a GAAP measure. See page 18.

(3) For the third and fourth quarter and total year 2001, excludes the effect of options and convertible debt as they are anti-dilutive due to the net loss.

(4) For purposes of calculating diluted adjusted earnings per share for the third and fourth quarter and total year 2001, the weighted average number of shares outstanding in millions was 235.7, 244.5 and 232.9, respectively.

(5) ROIC is calculated as EBIAT/average net invested capital. Net invested capital includes tangible assets less cash, accounts payable, accrued liabilities and income taxes payable.

(6) Shares outstanding and per share amounts for 2000 have been restated to reflect the treasury stock method, retroactively applied.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2001.

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties which could cause actual results to differ materially from those anticipated in these forward-looking statements. Among the key factors that could cause such differences are: the level of overall growth in the electronics manufacturing services (EMS) industry; lower-than-expected customer demand; component constraints; our variability of operating results among periods; our dependence on the computer and communications industries; our dependence on a limited number of customers; and our ability to manage expansion, consolidation and the integration of acquired businesses. These and other factors are discussed in the Company's filings with SEDAR and the U.S. Securities and Exchange Commission.

General

Celestica is a leading provider of electronics manufacturing services to OEMs worldwide with 2001 revenue of $10.0 billion. Celestica provides a wide variety of products and services to its customers, including the high-volume manufacture of complex PCAs and the full system assembly of final products. In addition, the Company is a leading-edge provider of design, repair and engineering services, supply chain management and power products. Celestica operates facilities in North America, Europe, Asia and Latin America.

Celestica prepares its financial statements in accordance with accounting principles which are generally accepted in Canada with a reconciliation to accounting principles generally accepted in the United States, as disclosed in Note 22 to the 2001 Consolidated Financial Statements.

Acquisitions

A significant portion of Celestica's growth has been generated by strengthening its customer relationships and increasing the breadth of its service offerings through facility and business acquisitions.

2000 Acquisitions:

In February and May, 2000, the Company acquired certain assets from the Enterprise Systems Group and Microelectronics Division of IBM in Rochester, Minnesota and Vimercate and Santa Palomba, Italy, respectively, for a total purchase price of $470.0 million. The purchase price, including capital assets, working capital and intangible assets, was financed with cash on hand. The Company signed two three-year strategic supply agreements with IBM to provide a complete range of electronics manufacturing services. The Rochester, Minnesota operation provides printed circuit board assembly and test services. The Vimercate operation provides printed circuit board assembly services and the Santa Palomba operation provides system assembly services. Approximately 1,800 employees joined Celestica from the IBM acquisition.

In June 2000, Celestica acquired NDB Industrial Ltda., NEC Corporation's wholly-owned manufacturing subsidiary in Brazil. The Company signed a five-year supply agreement to manufacture NEC communications network equipment for the Brazilian market. Approximately 680 employees joined Celestica. This acquisition enhanced the Company's presence in South America and put Celestica in a leadership position with communications and internet infrastructure customers. In August 2000, the Company acquired Bull Electronics Inc., the North American contract manufacturing operation of Groupe Bull of France. In November 2000, Celestica acquired NEC Technologies (UK) Ltd., in Telford, UK. The aggregate price for these three acquisitions in 2000 was $169.8 million. In 2000, Celestica also established a greenfield operation in Singapore.

2001 Asset Acquisitions:

In February 2001, Celestica acquired certain manufacturing assets in Dublin, Ireland and Mt. Pleasant, Iowa from Motorola Inc. and signed supply agreements for two and three years, respectively. This acquisition expanded the Company's business relationship with Motorola, a leading telecom wireless customer. In March 2001, Celestica acquired certain assets relating to N.K. Techno Co. Ltd 's repair business, which expanded the Company's presence in Japan, and established a greenfield operation in Shanghai. In May 2001, Celestica acquired certain assets from Avaya Inc. in Little Rock, Arkansas and Denver, Colorado and in August 2001, acquired certain assets in Saumur, France. The Company signed a five-year supply agreement with Avaya which positioned Celestica as Avaya's primary outsourcing partner in the area of printed circuit board and system assembly, test, repair and supply chain management for a broad range of its telecommunications products. In August 2001, Celestica acquired certain assets in Columbus, Ohio and Oklahoma City, Oklahoma from Lucent Technologies Inc. The Company signed a five-year supply agreement with Lucent, which positions Celestica as the leading EMS provider for Lucent's North American switching, access and wireless networking systems products.

The aggregate price for these asset acquisitions in 2001 of $834.1 million was financed with cash.

2001 Business Combinations:
In January 2001, Celestica acquired Excel Electronics, Inc. through a merger with Celestica (U.S.) Inc. which enhanced the Company's prototype service offering in the southern region of the United States. In June 2001, Celestica acquired Sagem CR s.r.o., in the Czech Republic, from Sagem SA, of France, which enhanced the Company's presence in central Europe and positioned Celestica as Sagem's primary EMS provider. In August 2001, Celestica acquired Primetech Electronics Inc. (Primetech), an electronics manufacturer in Canada. This acquisition provided Celestica with additional high complexity manufacturing capability and an expanded global customer base. The purchase price for Primetech was financed primarily with the issuance of 3.4 million subordinate voting shares and the issuance of options to purchase 0.3 million subordinate voting shares of the Company.

In October 2001, Celestica acquired Omni Industries Limited (Omni). Omni is an EMS provider, headquartered in Singapore, with locations in Singapore, Malaysia, China, Indonesia and Thailand and has approximately 9,000 employees. Omni provides printed circuit board assembly and system assembly services, as well as other related supply chain services including plastic injection molding and distribution. Omni manufactures products for industry leading OEMs in the PC, storage and communications sectors. The acquisition significantly enhanced Celestica's EMS presence in Asia. The purchase price of Omni of $865.8 million was financed with the issuance of 9.2 million subordinate voting shares and the issuance of options to purchase 0.3 million subordinate voting shares of the Company and $479.5 million in cash.

The aggregate purchase price for these business combinations in 2001 was $1,093.3 million, of which $526.3 million was financed with cash.

The Company is in the process of obtaining third-party valuations of certain assets for the Primetech and Omni acquisitions. The fair value allocations of the purchase price are subject to refinement and could result in adjustments between goodwill and other net assets.

Consistent with its past practices and as a normal course of business, Celestica may at any time be engaged in ongoing discussions with respect to several possible acquisitions of widely varying sizes, including small single facility acquisitions, significant multiple facility acquisitions and corporate acquisitions. Celestica has identified several possible acquisitions that would enhance its global operations, increase its penetration in several industries and establish strategic relationships with new customers. There can be no assurance that any of these discussions will result in a definitive purchase agreement and, if they do, what the terms or timing of any agreement would be. Celestica expects to continue any current discussions and actively pursue other acquisition opportunities.

Results of Operations

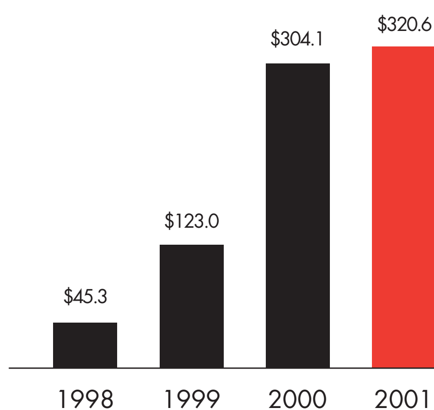
Celestica's revenue and margins can vary from period to period as a result of the level of business volumes, seasonality of demand, component supply availability and the timing of acquisitions. There is no certainty that the historical pace of Celestica's acquisitions will continue in the future.

Celestica's contractual arrangements with its key customers generally provide a framework for its overall relationship with the customer. Celestica recognizes product revenue upon shipment to the customer as performance has occurred, all customer specified acceptance criteria have been tested and met, and the earnings process is considered complete. Actual production volumes are based on purchase orders for the delivery of products. These orders typically do not commit to firm production schedules for more than 30 to 90 days in advance. Celestica minimizes its risk relative to its inventory by ordering materials and components only to the extent necessary to satisfy existing customer orders. Celestica is largely protected from the risk of inventory cost fluctuations as these costs are generally passed through to customers.

Celestica's annual and quarterly operating results are primarily affected by the level and timing of customer orders, fluctuations in materials costs, and relative mix of value add products and services. The level and timing of customers' orders will vary due to customers' attempts to balance their inventory, changes in their manufacturing strategies, variation in demand for their products and general economic conditions. Celestica's annual and quarterly operating results are also affected by capacity utilization and other factors, including price competition, manufacturing effectiveness and efficiency, the degree of automation used in the assembly process, the ability to manage inventory and capital assets effectively, the timing of expenditures in anticipation of increased sales, the timing of acquisitions and related integration costs, customer product delivery requirements and shortages of components or labour. Historically, Celestica has experienced some seasonal variation in revenue, with revenue typically being highest in the fourth quarter and lowest in the first quarter. In 2001, weak end-market conditions in the telecommunications and information technology industries resulted in customers rescheduling and cancelling orders. This has impacted Celestica's results of operations.

The table below sets forth certain operating data expressed as a percentage of revenue for the years indicated:

	Year ended December 31		
	1999	2000	2001
Revenue	100.0%	100.0%	**100.0%**
Cost of sales	92.8	92.9	**92.9**
Gross profit	7.2	7.1	**7.1**
Selling, general and administrative expenses	3.8	3.3	**3.4**
Amortization of intangible assets	1.0	1.0	**1.3**
Integration costs related to acquisitions	0.2	0.2	**0.2**
Other charges	0.0	0.0	**2.7**
Operating income (loss)	2.2	2.6	**(0.5)**
Interest expense (income), net	0.2	(0.2)	**(0.1)**
Earnings (loss) before income taxes	2.0	2.8	**(0.4)**
Income taxes	0.7	0.7	**0.0**
Net earnings (loss)	1.3%	2.1%	**(0.4)%**



Adjusted net earnings

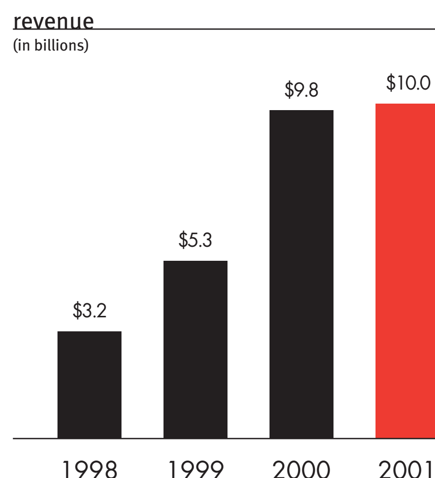
As a result of the significant number of acquisitions made by Celestica over the past few years, management of Celestica uses adjusted net earnings as a measure of operating performance on an enterprise-wide basis. Adjusted net earnings exclude the effects of acquisition-related charges (most significantly, amortization of intangible assets and integration costs related to acquisitions), other charges (most significantly, restructuring costs and the write-down of goodwill and intangible assets) and the related income tax effect of these adjustments. Adjusted net earnings is not a measure of performance under Canadian GAAP or U.S. GAAP. Adjusted net earnings should not be considered in isolation or as a substitute for net earnings (loss) prepared in accordance with Canadian GAAP or U.S. GAAP or as a measure of operating performance or profitability. Adjusted net earnings does not have a standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies. The following table reconciles net earnings (loss) to adjusted net earnings:

	Year ended December 31		
	1999	2000	2001
		(in millions)	
Net earnings (loss)	$ 68.4	$ 206.7	**$ (39.8)**
Amortization of intangible assets	55.6	88.9	**125.0**
Integration costs related to acquisitions	9.6	16.1	**22.8**
Other charges	–	–	**273.1**
Income tax effect of above	(10.6)	(7.6)	**(60.5)**
Adjusted net earnings	$ 123.0	$ 304.1	**$ 320.6**
As a percentage of revenue	2.3%	3.1%	**3.2%**

Revenue

Revenue increased 3%, to $10,004.4 million in 2001 from $9,752.1 million in 2000. Acquisition revenue grew by 14%, offset by an 11% decline in base business volumes. The acquisition growth was a result of strategic acquisitions in the communications industry, primarily in the U.S. and Asia. The Company defines acquisition revenue as revenue from businesses acquired in the preceding 12 months. Organic revenue declined in 2001 due to the softening of end markets. The visibility of future end-market conditions is limited.

Revenue from the Americas operations decreased 3% to $6,334.6 million in 2001 from $6,542.7 million in 2000 primarily due to continued end-market softening which was partially offset by acquisitions. Revenue from European operations increased 6% to $3,001.3 million in 2001 from $2,823.3 million in 2000 due to the flow through of the IBM acquisition from 2000 and from the 2001 acquisitions, partially offset by the general industry downturn. Revenue from Asian operations increased 14% to $991.1 million in 2001 from $871.6 million in 2000 primarily due to the Omni acquisition offset in part by the general industry downturn. Inter-segment revenue in 2001 was $322.6 million, compared to $485.5 million in 2000. We expect that the Americas and Asian operations will benefit in the future from the flowthrough of the 2001 acquisitions.



Revenue from customers in the communications industry in 2001 was 36% of revenue compared to 31% and 25% of revenue in 2000 and 1999, respectively. Revenue from customers in the server-related business in 2001 was 31% compared to 33% and 25% of revenue in 2000 and 1999, respectively. Revenue in the communications industry benefited from our recent acquisitions.

Revenue increased 84%, to $9,752.1 million in 2000 from $5,297.2 million in 1999. This increase resulted from growth achieved both organically and through strategic acquisitions. This growth was driven by customers in the communications and server industries. Organic revenue growth in 2000 was 50% and represented approximately 59% of the total year-over-year growth. Organic growth came from growth in existing business and new customers across all geographic segments. The IBM acquisition accounted for the majority of the acquisition growth in 2000. Revenue from the Americas operations grew 82%, to $6,542.7 million in 2000 from $3,587.5 million in 1999. Revenue from European operations grew 155%, to $2,823.3 million in 2000 from $1,108.6 million in 1999. The Italian facilities generated over half of Europe's increase from the prior year, with the remainder due to an overall increase in Europe's base business. Revenue from Asian operations increased 23%, to $871.6 million in 2000 from $710.2 million in 1999. Inter-segment revenue in 2000 was $485.5 million, compared to $109.1 million in 1999.

The following customers represented more than 10% of total revenue for each of the indicated years:

	1999	2000	2001
Sun Microsystems	✓	✓	✓
IBM		✓	✓
Lucent Technologies			✓
Hewlett-Packard	✓		
Cisco Systems	✓		

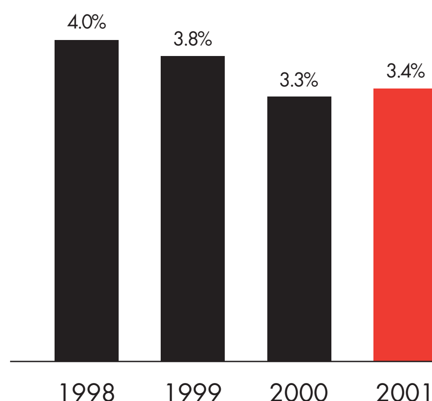
Celestica's top-five customers represented in the aggregate 67% of total revenue in 2001 compared to 69% in 2000 and 68% in 1999. The Company is dependent upon continued revenue from its top customers. There can be no assurance that revenue from these or any other customers will not increase or decrease as a percentage of total revenue either individually or as a group. Any material decrease in revenue from these or other customers could have a material adverse effect on the Company's results of operations. See notes 17 (concentration of risk) and 19 to the Consolidated Financial Statements.

Gross profit

Gross profit increased 4%, to $712.5 million in 2001 from $688.0 million in 2000. Gross margin was 7.1% in 2001, consistent with 2000. Margins were maintained due to continued focus on costs and supply chain initiatives and the benefits of restructuring actions.

Gross profit increased 80%, to $688.0 million in 2000 from $382.5 million in 1999. Gross margin decreased to 7.1% in 2000 from 7.2% in 1999. Gross margin decreased as a result of a change in product mix and start-up costs for new programs, particularly in Mexico.

For the foreseeable future, the Company's gross margin is expected to depend primarily on product mix, production efficiencies, utilization of manufacturing capacity, start-up activity, new product introductions and pricing within the electronics industry. Over time, gross margins at individual sites and for the Company as a whole are expected to fluctuate. Changes in product mix, additional costs associated with new product introductions and price erosion within the electronics industry could adversely affect the Company's gross margin. Also, the availability of raw materials, which are subject to lead time and other constraints, could possibly limit the Company's revenue growth.



Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased 5% to $341.4 million (3.4% of revenue) in 2001 from $326.1 million (3.3% of revenue) in 2000. The increase in expenses was primarily due to operations acquired during 2000 and 2001.

SG&A increased 61%, in 2000 to $326.1 million (3.3% of revenue) from $202.2 million (3.8% of revenue) in 1999. The increase in expenses was a result of increased staffing levels and higher selling, marketing and administrative costs to support sales growth, as well as the impact of expenses incurred by operations acquired during 1999 and 2000.

Research and development costs decreased to $17.1 million (0.2% of revenue) in 2001 compared to $19.5 million (0.2% of revenue) in 2000 and $19.7 million (0.4% of revenue) in 1999.

Intangible assets and amortization

Amortization of intangible assets increased 41%, to $125.0 million in 2001 from $88.9 million in 2000. This increase is attributable to the intangible assets arising from the 2000 and 2001 acquisitions.

Amortization of intangible assets increased 60%, to $88.9 million in 2000 from $55.6 million in 1999. This increase is attributable to the intangible assets arising from the 1999 and 2000 acquisitions, with the largest portion relating to the IBM and NEC acquisitions.

At December 2001, intangible assets represented 23% of Celestica's total assets compared to 10% at December 2000. The increase is due principally to the Omni acquisition.

Effective July 1, 2001, the Company adopted the new accounting standards for "Business Combinations" and "Goodwill and Other Intangible Assets" as they relate to acquisitions consummated after June 30, 2001. Accordingly, the goodwill related to the acquisitions of Primetech and Omni has not been amortized. Effective January 1, 2002, amortization will be discontinued for all other goodwill. Amortization expense in 2001 related to goodwill was $39.2 million. See "Recent Accounting Developments."

Integration costs related to acquisitions

Integration costs related to acquisitions represent one-time costs incurred within 12 months of the acquisition date, such as the costs of implementing compatible information technology systems in newly acquired operations, establishing new processes related to marketing and distribution processes to accommodate new customers and salaries of personnel directly involved with integration activities. All of the integration costs incurred related to newly acquired facilities, and not to the Company's existing operations.

Integration costs were $22.8 million in 2001 compared to $16.1 million in 2000 and $9.6 million in 1999. The integration costs incurred in 2001 primarily relate to the completion of the IBM acquisition from 2000 and the Avaya and Motorola acquisitions.

Integration costs vary from period to period due to the timing of acquisitions and related integration activities. Celestica expects to incur additional integration costs in 2002 as it completes the integration of its 2001 acquisitions. Celestica will incur future additional integration costs as the Company continues to make acquisitions as part of its growth strategy.

Other charges

Other charges are non-recurring items or items that are unusual in nature. In 2001, Celestica incurred $273.1 million in other charges. $237.0 million relates to restructuring, of which approximately 40% is non-cash. The remainder of $36.1 million relates to a non-cash charge to write-down the carrying value of certain assets, primarily goodwill and intangible assets.

The Company has been impacted by numerous order reductions, reschedulings and cancellations since the beginning of fiscal 2001, which the Company believes is consistent with the EMS industry in general. The Company has taken restructuring actions to resolve surpluses as a result of the end-market slowdown.

These restructuring actions include facility consolidations and workforce reductions. Employee terminations were made across all geographic regions with the majority being manufacturing and plant employees. The Company took a non-cash charge to write-down certain long-lived assets across all geographic regions, which became impaired as a result of the rationalization of facilities. These asset impairments relate to goodwill and other intangible assets, machinery and equipment, buildings and improvements. The restructuring charge includes a number of estimates and assumptions based on information available at the time, and are subject to change.

A further description of these charges is included in Note 13 to the Consolidated Financial Statements.

The Company expects to benefit from the restructuring measures through margin improvements and reduced operating costs in the upcoming year. The Company expects to complete the major components of the restructuring plan by the end of 2002. Cash outlays are funded from cash on hand.

Celestica did not incur other charges in 2000 or 1999.

Interest income, net

Interest income, net of interest expense, in 2001 and 2000 amounted to $7.9 million and $19.0 million, respectively. The Company incurred net interest expense of $10.7 million in 1999. Interest income decreased in 2001 compared to 2000 due to the Company earning lower interest rates on its cash balance. In 2001 and 2000, the Company earned interest income on its cash balance which more than offset the interest expense incurred on the Company's Senior Subordinated Notes.

Income taxes

The Company's income tax recovery in 2001 was $2.1 million, reflecting an effective tax recovery rate of 5%. This is compared to an income tax expense of $69.2 million in 2000, reflecting an effective tax rate of 25%, and an income tax expense of $36.0 million in 1999, reflecting an effective tax rate of 34%.

The Company's effective tax rate decreased from 24% to 17% in the second quarter of 2001 as a result of the mix and volume of business in lower tax jurisdictions within Europe and Asia. These lower tax rates include tax holidays and tax incentives that Celestica has negotiated with the respective tax authorities which expire between 2002 and 2012. The 2001 effective tax rate is impacted by the occurrence of losses in the third and fourth quarters, which are tax benefited at these lower tax rates. Notwithstanding the anomaly created by these losses in determining the year-to-date tax rate, the Company's current tax rate of 17% is expected to continue for the foreseeable future.

Celestica has recognized a net deferred tax asset at December 31, 2001 of $102.8 million compared to $83.5 million at December 31, 2000. The net asset relates to the recognition of net operating losses and future income tax deductions available to reduce future years' income for income tax purposes. Celestica's current projections demonstrate that it will generate sufficient taxable income in the future to realize the benefit of these deferred income tax assets in the carry-forward periods. A portion of the net operating losses have an indefinite carry-forward period. The other portion will expire over a 20-year period commencing in 2005.

Convertible Debt

In August 2000, Celestica issued LYONs with a principal amount at maturity of $1,813.6 million, payable August 1, 2020. The Company received gross proceeds of $862.9 million and incurred $12.5 million in underwriting commissions, net of tax of $6.9 million. No interest is payable on the LYONs and the issue price of the LYONs represents a yield to maturity of 3.75%. The LYONs are subordinated in right of payment to all existing and future senior indebtedness of the Company.

The LYONs are convertible at any time at the option of the holder, unless previously redeemed or repurchased, into 5.6748 subordinate voting shares for each $1,000 principal amount at maturity. Holders may require the Company to repurchase all or a portion of their LYONs on August 2, 2005, August 1, 2010 and August 1, 2015 and the Company may redeem the LYONs at any time on or after August 1, 2005 (and, under certain circumstances, before that date). The Company is required to offer to repurchase the LYONs if there is a change in control or a delisting event. Generally, the redemption or repurchase price is equal to the accreted value of the LYONs. The Company may elect to pay the principal amount at maturity of the LYONs, or the repurchase price that is payable in certain circumstances, in cash or subordinate voting shares or any combination thereof.

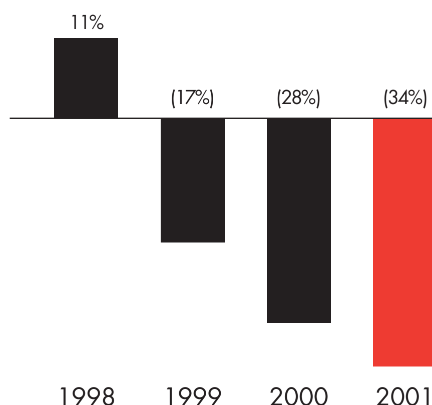
The Company has recorded the LYONs as an equity instrument pursuant to Canadian GAAP. The LYONs are bifurcated into a principal equity component (representing the present value of the notes) and an option component (representing the value of the conversion features of the notes). The principal equity component is accreted over the 20-year term through periodic charges to retained earnings. Under U.S. GAAP, the LYONs are classified as a long-term liability and, accordingly, the accrued yield on the LYONs during any period (at 3.75% per year) is classified as interest expense for that period.

To calculate basic earnings (loss) per share for Canadian GAAP, the accretion of the convertible debt is deducted from net earnings (loss) for the period to determine earnings available to shareholders.

Liquidity and Capital Resources

In 2001, operating activities provided Celestica with $1,290.5 million in cash principally from earnings and a reduction in working capital. The primary factors contributing to the positive cash flow for the year were the reduction of inventory due to better inventory management, strong accounts receivable collections, the sale of $400.0 million in accounts receivable under a revolving facility which is available until September 2004 offset by a decrease in accounts payable and accrued liabilities. Investing activities in 2001 included capital expenditures of $199.3 million and $1,299.7 million for acquisitions. See "Acquisitions." Celestica fully funded the cash portion of its 2001 acquisitions with cash from operations and will continue to focus on improving working capital management. The Company's 2001 financing activities included the issuance in May of 12.0 million subordinate voting shares for gross proceeds of $714.0 million less expenses and underwriting commissions of $10.0 million (pre-tax) and the repayment of $56.0 million of debt acquired in connection with the acquisition of Omni.

For the year ended December 31, 2000, Celestica's operating activities utilized $85.1 million in cash. Investing activities in 2000 included capital expenditures of $282.8 million and $634.7 million for acquisitions. In March 2000, Celestica issued 16.6 million subordinate voting shares for gross proceeds of $757.4 million less expenses and underwriting commissions of $26.8 million (pre-tax). In August 2000, Celestica completed the LYONs offering, raising gross proceeds of $862.9 million less underwriting commissions of $19.4 million (pre-tax).



Capital Resources

Celestica has two $250.0 million and one $500.0 million unsecured, revolving credit facilities totalling $1 billion, each provided by a syndicate of lenders. The credit facilities permit Celestica and certain designated subsidiaries to borrow funds directly for general corporate purposes (including acquisitions) at floating rates. The credit facilities are available until July 2003, April 2004 and July 2005, respectively. Under the credit facilities: Celestica is required to maintain certain financial ratios; its ability and that of certain of its subsidiaries to grant security interests, dispose of assets, change the nature of its business or enter into business combinations, is restricted; and a change in control is an event of default. No borrowings were outstanding under the revolving credit facilities at December 31, 2001.

In addition, there is an incurrence covenant contained in Celestica's Senior Subordinated Notes due 2006. This covenant is based on Celestica's fixed charge coverage ratio, as defined in the indenture governing the Senior Subordinated Notes. Celestica was in compliance with this debt covenant as at December 31, 2001.

A subsidiary of the Company has secured loan facilities of which $13.0 million was outstanding at December 31, 2001. The weighted average interest rates on these facilities in 2001 was 4.4%. The loans are denominated in Singapore dollars and are repayable through quarterly payments.

Celestica believes that cash flow from operating activities, together with cash on hand and borrowings available under its credit facilities, will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next 12 months. The Company expects capital spending for 2002 to be approximately $170.0 million to $220.0 million. At December 31, 2001, Celestica had committed $21.0 million in capital expenditures. In addition, Celestica regularly reviews acquisition opportunities, and may therefore require additional debt or equity financing.

Celestica prices the majority of its products in U.S. dollars, and the majority of its material costs are also denominated in U.S. dollars. However, a significant portion of its non-material costs (including payroll, facilities costs and costs of locally sourced supplies and inventory) are denominated in various currencies. As a result, Celestica may experience transaction and translation gains or losses because of currency fluctuations. At December 31, 2001, Celestica had forward foreign exchange contracts covering various currencies in an aggregate notional amount of $704.8 million with expiry dates up to May 2003. The fair value of these contracts at December 31, 2001 was an unrealized loss of $7.4 million. Celestica's current hedging activity is designed to reduce the variability of its foreign currency costs and involves entering into contracts to sell U.S. dollars to purchase Canadian dollars, British pounds sterling, Mexican pesos, euros, Thailand baht and Czech koruna at future dates. In general, these contracts extend for periods of less than 18 months. Celestica may, from time to time, enter into additional hedging transactions to minimize its exposure to foreign currency and interest rate risks. There can be no assurance that such hedging transactions, if entered into, will be successful.

As at December 31, 2001, the Company has contractual obligations that require future payments as follows:

(in millions)	Total	2002	2003	2004	2005	2006	Thereafter
Long-term debt	$ 147.4	$ 10.0	$ 4.5	$ 1.3	$ 0.7	$ 130.6	$ 0.3
Operating leases and license commitments	359.4	104.1	81.3	38.0	26.4	20.4	89.2

The Company has a convertible instrument with a principal amount at maturity of $1,813.6 million payable August 1, 2020. The Company may elect to settle in cash or shares or any combination thereof. See further details in Note 10 to the Consolidated Financial Statements.

As at December 31, 2001, the Company has commitments that expire as follows:

(in millions)	Total	2002	2003	2004	2005	2006	Thereafter
Foreign currency contracts	704.8	654.0	50.8	—	—	—	—
Letters of credit and guarantees	24.1	24.1	—	—	—	—	—

Recent Development

In January 2002, the Company entered into an agreement with NEC Corporation to purchase certain manufacturing assets in Miyagi and Yamanashi, Japan. This acquisition is expected to close in the first quarter of 2002.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are used in determining the allowance for doubtful accounts, inventory valuation and the useful lives of intangible assets. Actual results could differ materially from those estimates and assumptions.

Celestica records an allowance for doubtful accounts for estimated credit losses based on customer and industry concentrations and the Company's knowledge of the financial condition of its customers. A change to these factors could impact the estimated allowance.

Celestica values its inventory on a first-in, first-out basis at the lower of cost and replacement cost for production parts and at the lower of cost and net realizable value for work in progress and finished goods. Celestica adjusts its inventory valuation based on estimates of net realizable value and shrinkage. A change to these assumptions could impact the valuation of inventory.

Celestica's estimate of the useful life of intangible assets reflects the periods in which the projected future net cash flows are generated. A significant change in the projected future net cash flows could impact the estimated useful life.

Recent Accounting Developments

Earnings per share:

As a result of the new Canadian Institute of Chartered Accountants (CICA) Handbook Section 3500 "Earnings per share," the Company was required to retroactively use the treasury stock method for calculating diluted earnings per share. This change results in an earnings per share calculation which is consistent with United States GAAP. Previously reported diluted earnings per share have been restated to reflect this change.

Business combinations and goodwill:

In September 2001, the CICA issued Handbook Sections 1581 "Business Combinations" and 3062 "Goodwill and Other Intangible Assets." The new standards mandate the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill. The standards require that the value of the shares issued in a business combination be measured using the average share price for a reasonable period before and after the date the terms of the acquisition are agreed to and announced. Previously, the consummation date was used to value the shares issued in a business combination. The new standards are substantially consistent with United States GAAP.

Effective July 1, 2001 and for the remainder of the fiscal year, goodwill acquired in business combinations completed after June 30, 2001 was not amortized. In addition, the criteria for recognition of intangible assets apart from goodwill and the valuation of the shares issued in a business combination has been applied to business combinations completed after June 30, 2001.

Upon full adoption of the standards beginning January 1, 2002, the Company will discontinue amortization of all existing goodwill, evaluate existing intangible assets and make any necessary reclassifications in order to conform with the new criteria for recognition of intangible assets apart from goodwill and will test for impairment in accordance with the new standards.

In connection with Section 3062's transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of January 1, 2002. The Company has up to six months to determine the fair value of its reporting units and compare that to the carrying amounts of the reporting units. To the extent a reporting unit's carrying amount exceeds its fair value, the Company must perform a second step to measure the amount of impairment in a manner similar to a purchase price allocation. This second step is to be completed no later than December 31, 2002. The change to assessing fair value by reporting unit could result in an impairment charge. Any transitional impairment will be recognized as an effect of a change in accounting principle and will be charged to opening retained earnings as of January 1, 2002.

As of December 31, 2001, the Company had unamortized goodwill of $1,128.8 and unamortized other intangible assets including intellectual property of $427.2, all of which are subject to the transitional provisions of Sections 1581 and 3062. Amortization expense related to goodwill was $39.2 for 2001. Because of the extensive effort required to comply with the remaining provisions of Sections 1581 and 3062, the Company has not estimated the impact of these provisions on its financial statements, beyond discontinuing goodwill amortization.

Stock-based compensation and other stock-based payments:
In December 2001, the CICA issued Handbook Section 3870, which establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning January 1, 2002 for awards granted on or after that date. The Company's current accounting policies are consistent with the new standard.

Foreign currency translation and hedging relationships:
CICA Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, effective January 1, 2002 with retroactive restatement of prior periods. The Company is not impacted by this change. The CICA issued Accounting Guideline AcG-13, which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company has complied with the requirements of AcG-13 and has determined that all of its current hedges will continue to qualify for hedge accounting when the guideline becomes effective.

Transfer of receivables:
In March 2001, the CICA issued Accounting Guideline AcG-12, which applies to transfers of receivables after June 30, 2001. AcG-12 requires that transfers of receivables in which the transferor surrenders control over the assets, be accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets, are received in exchange. The Company's current accounting policies are consistent with the new standard.

Impairment of long-lived assets:
In October 2001, FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses of long-lived assets other than goodwill. Statement 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. This Statement is effective for the Company's fiscal year commencing January 1, 2002, to be applied prospectively. In August 2001, SFAS 143, "Accounting for Asset Retirement Obligations" was approved and requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. SFAS 143 is effective for the Company's fiscal year commencing January 1, 2003. The Company expects the adoption of these standards will have no material impact on its financial position, results of operations or cash flows.